RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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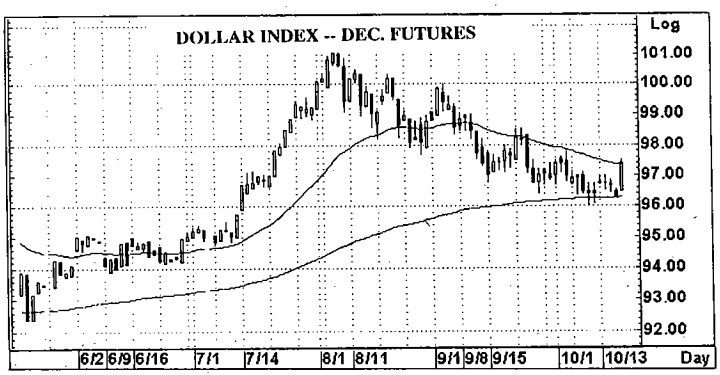
Oct. 22, 1997 **LETTER 1237**

RUSSELL'S VIEW: The Dow recorded its bull market high of **8259.31** back on August 6. The bonds recorded their high for the year on October 3 with the 30-year T-bond (Dec. futures) at **118 18/32nds.** Despite the non-confirmation by the Dow and despite the peak in the bonds, almost all the major stock averages advanced to new record highs during October. Nevertheless, the failure of the Dow to join the other Averages on the upside has bothered me -- and I've drawn attention repeatedly to this flagrant non-confirmation on the part of 30 of the NYSE's largest blue-chip corporations.

My guess is that the market is now lapsing into a high-level trading range. On Oct. 8 Fed Chief Greenspan suggested that with wage increases beginning to appear and with corporations, in general, unable to raise prices, businesses could be facing a forthcoming slowdown in profits. He also hinted that inflation could be on the verge of heating up.

I'm giving a lot of attention to three items. First, that strange, stubborn **resistance by the Dow** to confirm on the upside. Secondly, the **competitive currency devaluations** that are sweeping Asia -- last week Pakistan devalued its rupee by 8%. (Is India next?) Cheaper currencies mean tougher world competition for exports. Third, the dollar has been weak ever since its August 6 high of 101.36 on the Dollar Index (basis the Dec. futures). But Flash! on Oct. 17 I got a bullish reversal signal for the Dollar Index as the Dec. futures rallied above their 34-day MA. Consequently, I believe the weakness in the dollar is about over.



As I see it, the powerful upside momentum of the stock market is now running into a wall of reality problems. True, the US public continues to buy heavily into common stocks (mostly through mutual funds). But simultaneously, corporate insiders have been selling heavily in shares of their own companies. All the foregoing could easily put a high-level cap on the market, forcing it into a trading range. That's the Russell view.

Meanwhile, in a surprise move, Germany's Bundesbank raised rates on Oct. 9, a move which firmed rates throughout Europe. The German move also impacted on the dollar and on US bonds.

At the same time, the situation in Japan and Southeast Asia continues to be negative. Last week the Japanese Nikkei index broke to another new low for the year. The Japanese people are dealing with a depressing situation. The government has raised the sales tax, which cuts into consumption. At the same time, the government has driven interest rates to record lows. Thus, the Japanese are squeezed on two sides -- it costs them more to buy items and they receive less from their savings.

Oct. 10 DJIA 8045.21; PTI 5095; A-D Ratio +10.93
Oct. 17 DJIA 7847.03; PTI 5094; A-D Ratio +10.10
Dow Yield: 1.70%; Dow Price/Earnings: 20.3
Dow 144-day MA: 7610; Dow 34-day MA: 7959
Dow Times Book Value: 5.54; PTI 89-day MA: 5016
Percentage of Undervalued Blue-chips: record low 2%
Gold 144-day MA: 329

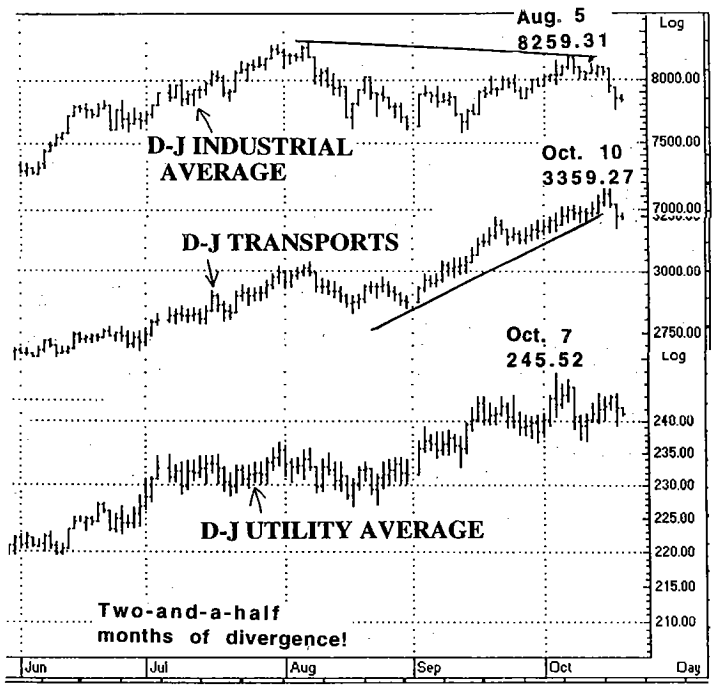
THE MARKET: Every week, no every day, I receive stacks of mail from various advisories, magazines, newspapers, letters from subscribers, clippings, etc., each offering their opinions as to what the market is going to do.

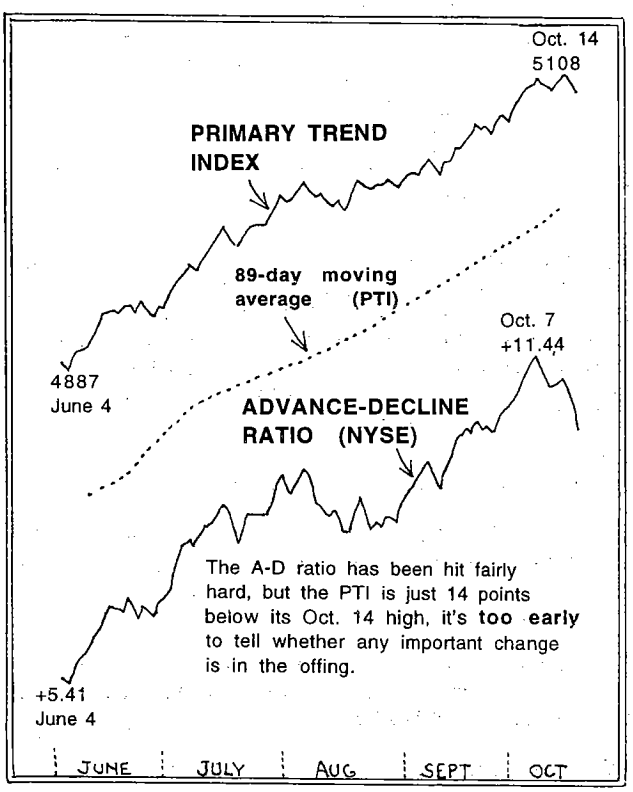
To be honest, I read them all -- but there's only one expert that I give total credence to -- and that expert is the market itself. So saying, let's see what Wall Street's "undisputed expert" is saying.

The easiest, and probably the most fundamental method of analyzing the stock market is through the use of moving averages. Moving averages smooth the trend, making the trend easier to identify. Secondly, moving averages simply compare a stock or an average with its own past performance.

So saying, let's run through a few critical items. But first, I want to turn to one of the key elements in the market. And I'm referring to the bonds. As I see it, **growth is already built into, and reflected, in the price of stocks.** With average dividend yields down to 1.6%, it's clear that the market is counting on growth while at the same time ignoring risk. The big question is -- **will growth continue, and what is growth worth?**

This is where the bonds come in. The earnings yield on the S&P 500 is now **3.86%.** I'm not talking about the dividend yield (which is now 1.49% on the S&P), I'm talking about **the earnings yield or the earnings divided by the price.**





The current large yield advantage in bonds can only be justified if the future for stock earnings is extremely bullish -- and if bond yields either hold steady or decline. Right now the market is pricing in earnings growth for the S&P in 1998 at about a 15% rise. If S&P earnings increase 15% in 1997, then we're talking about earnings of roughly 51.35 next year. This in turn will move the projected earnings yield for the S&Ps to 5.29%. This is **still more than 1% below the current guaranteed 6.41% yield on the long bond.**

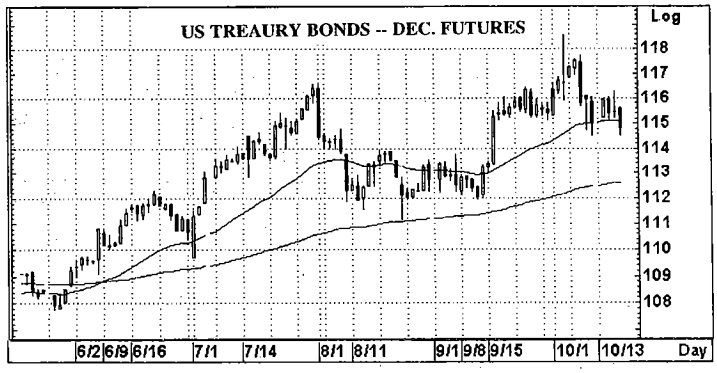
My conclusion: The S&P, even based on the optimistic view of next year's earnings, is still priced very richly. If bond yields hold steady or decline, the stock market (assuming rising S&P earnings next year) can hold steady or even advance. Therefore, we have two premises built into the current market -- both of them highly optimistic: the two premises are **(1)** strongly rising earnings for stocks in '98 and **(2)** a steady or a rising bond market in '98.

Those are the two variables: we can only guess at (or project) next year's S&P earnings. But we do *know* the current yield on the bonds. Thus, the action of the bond market is crucial.

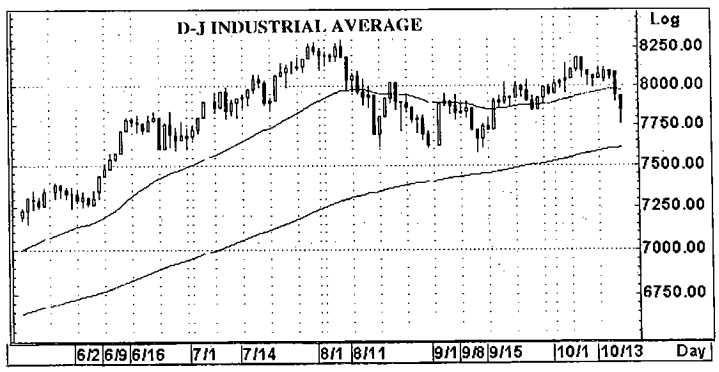
From all the above, it follows logically that there are two items that the stock market cannot tolerate: **(1)** a declining bond market, and **(2)** a surprise, either in the domestic economy or internationally, a surprise that will impact on the corporate earnings picture (think Intel).

Now that we've established the critical importance of the bonds, let's examine the bond picture via the heavily-traded futures. The T-bond futures are always based on a 30-year maturity US Treasury bond with an 8% coupon. This bond is known simply as the "long bond."

Turning to the chart above right, the bonds remain long-term bullish based on the position of the two moving averages. On Oct. 3 the Dec. bond futures surged to an intra-day high of 118 18/32nds. That represents a high which I believe will stand for quite a while. Since then the bonds have been fluctuating just above and below their 34-day MA, which as this is written stands at 115, basis the Dec. futures. The bonds continue to be bullish but barely so -- and they must hold within shooting distance of 115. A move substantially below 115 would turn the bonds near-term bearish.



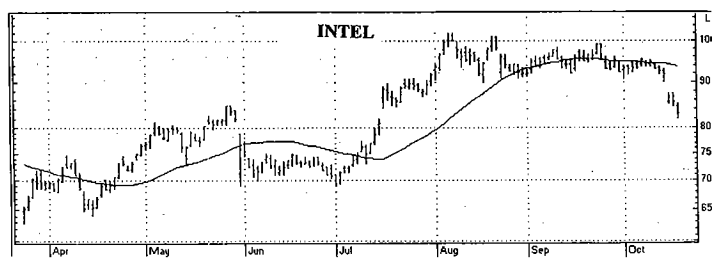
Next, let's turn to the venerable D-J Industrial Average. Here we have potential trouble. True, the two moving averages of the Dow remain in the long-term bullish position -- but -- on October 16 the Dow plunged 119 points, closing **below** its 34-day MA. On October 17 (Friday) the Dow plunged another 91 points. The next significant downside level is the level of the 144-day MA, which now stands at 7607. So as I've written repeatedly in recent Letters, **7600** remains the critical level for the Dow. Below 7600 and the major trend of the market could be turning bearish.

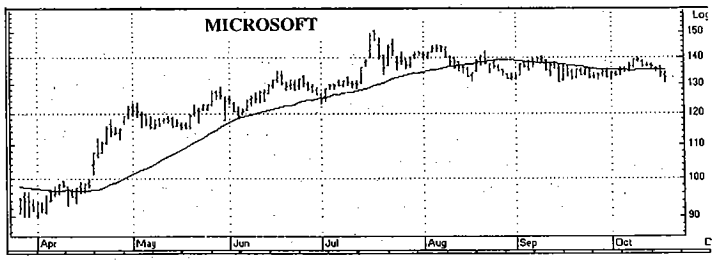


Russell comment: There's something negative in the wind, and it's being reflected in the Dow. Devaluation, a sliding dollar, a forthcoming slowdown in retail sales, declining growth in profits? Something, I don't know what. But one by one the Dow stocks are being "knocked off" as per Coke, McDonald's, Union Carbide, Kodak, DuPont, Sears. I know one thing -- **there's a limit on how far the market can advance without the Dow.**

The **D-J Transportation Average** (not shown) has been one of the strongest of all the averages. The Transports rallied above their 34-day MA on September 2. The Transports advanced to a record high on September 8 and since then they have registered one high after another. As I stated repeatedly, it remains for the Industrials to confirm the new highs in the Transports.

KEY STOCKS: If there is one stock that can move the entire market, it is **Intel.** Intel has a 89% share of the world's chip market. Intel today possesses the market-power that IBM possessed 20 years ago. I link Intel (the world's leading chip-maker) with **Microsoft** (the world's largest software producer). Here are the charts of both. **Conclusion:** Intel is breaking down while Microsoft (which has been marking time for months) has not recorded a new high since mid-July. These two stocks probably best represent the *growth potential* of US business.





THE PICTURE: In previous Letters I drew attention to global deflationary trends, particularly where it concerns the death of "pricing power" (meaning, the inability of corporations to raise prices). Example: today on my FAX machine I received a FAX which begins, "We guarantee to beat Office Depot and Staples prices on these and the other 3,000 items in our MVP Catalogue EVERYDAY!!!" A few of the items listed are cartridges, envelopes, folders, paper, pads. Believe me, as far as retail is concerned, it's a jungle out there.

Today Japan and Southeast Asia are in major trouble. Billions of dollars of bad bank loans are one problem -- to that add shaky banks, collapsing currencies, slumping stock markets. The Asian picture is seriously deflationary and its repercussions are hitting US markets and world markets.

The strong dollar has depressed the price of imports for the past two years. Now we have a collapse of the Southeast Asian currencies, and the prediction is that Asia will catch another downdraft, probably as soon as December. Said Neal Soss, chief US economist at Credit Suisse, "Think about what's going to happen to the consumer price index when we start importing all these Southeast Asian goods 20% cheaper. Think about what the apparel price index, for example, is going to look like around Christmas."

The picture is shaping up as an all-out global battle for exports. The thinking is that Japan (which is in recession) and China will have to cut prices to the bone in order to beat out their Southeast Asian neighbors. Said Bruce Steinberg, analyst for Merrill Lynch, "Japan is in a pickle. They're going to have to export more, and how are they going to do that? They are going to have to cut their prices, and probably the yen is going to have to depreciate more."

Fears grow for Japan economy

By Paul Abrahams in Tokyo

Japan is teetering on t
brink of recession, accordi
to data published yesterda
The country's econor
has so deteriorated sin
April's decision to raise sal
taxes that one of Japan's t
four securities houses is pi
dicting negative growth
gross domestic product f
this financial year. Nikl

NEWS DIGEST

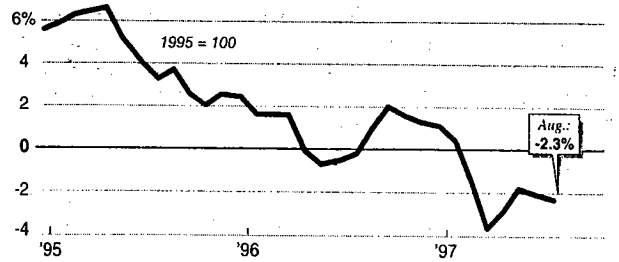
Malaysia growth target reduced

Anwar Ibrahim, Malaysia's deputy prime minister, said

Russell comment: From one standpoint, the deflationary picture represents a bonanza for US shoppers. But what about US manufacturers? The competition among manufacturers is going to be fierce, and the outcome could be a squeeze on the profits of major US firms.

Import Prices

Year-over-year percentage change, in monthly index



Sources: Atlanta Federal Reserve, Labor Dept., Datastream *Investor's Business Daily*

Recently we witnessed the spectacle of Malaysia's Prime Minister Mahathir screaming that "morons" like George Soros were responsible for his nation's troubles. Mahathir is whistling in the dark. There's no mysterious villain out there. What is "out there" are the global financial markets, and they're far bigger than any individual or any government.

The global markets consist of an electronic army of faceless traders, traders in currencies, stocks, bonds, and derivatives. This giant army operates everywhere there is a Bloomberg machine, a computer hooked up to the Internet or a telephone connected with a trading floor. Their trading runs into trillions of dollars a day -- the trading is huge, it's faceless, it's remorseless, and it's interested in only one thing -- making money. So welcome to the new world, all you politicians and government leaders. And it is a new world -- nobody has ever seen anything like it.

PROFITS?: Why or what caused the Dow to "top out" more than two months ago on August 6? This is the way I see it. Earnings for the big Dow stocks have been surging higher over the past four years. Since 1992 they have increased at an extraordinary compound rate of over 16%. But in the second quarter of '97 this growth rate slowed to single digit numbers. The big kicker in the accelerating profit growth has been the surge in profitability.

But since the second quarter the rate of profitability has declined, due to the lack of pricing power and the end of various cost-savings items gained from retrenchment plus reductions in the labor force (the latter better known as a blizzard of pink slips).

Conclusion: The earnings increases of 15%-18% seen over the past four years have declined to around 9% at present. On October 8, Greenspan warned that corporations may not be able to continue their rate of profitability. Greenspan is going to be right.

INVESTMENT POSITION: It is now generally conceded that if you just continue to buy stocks you will beat out every other category including bonds. This has been true since the 1974 bear market bottom, at which time the Dow was at 577. But 1974 was a long time ago, and what was true with the Dow at 577 may not be true today with the Dow at 8000.

My own feeling is that at this time I'd rather bet on the guaranteed 6.4% yield on the long bond than I would on the more speculative 1.6% yield offered by the Dow or the S&P. Of course this position can change. If (God forbid) we get a bear market and good stocks go back to 6% yields (is that possible?), then stocks will probably possess much more potential than bonds.

There's one problem, of course. If we ever get another bear market and if we ever see blue-chips yielding 6% again, the same people who are today screaming, "Buy the secondaries or buy foreign gems," will be telling us that we're approaching the end of the world and that buying stocks is a ticket to financial oblivion.

You see, that's the great paradox of the stock market. When stocks are down and cheap, only anonymous millionaires buy 'em. When stocks are up and expensive, those same crafty anonymous millionaires sell 'em. But look, you object, isn't the public making money now? Sure, I answer, but 95% of the public has only been tested through the easy part of the cycle. They haven't experienced the hard part yet. The hard part of the test comes when the cycle turns down.

Russell Advice: Save, scrimp, exercise, don't under any circumstances smoke or gamble, avoid fattening foods, develop your spiritual side, put a third of your money in T-bills, another third in three-year T-notes and the rest in 20-30 year T-bonds. And exercise the patience of 10 men. Finally, remember the old Chinese proverb -- "All comes to he who waits."

NOTES & QUOTES: I've been writing about the vicious competition that is now, or will in the future, be hitting literally every industry. One of the conduits for this vicious competition will be the **Internet.** Want to buy a car? Check out the latest prices on the Internet. Want to buy office furniture or a set of tools or an airline ticket to Paris? Check the Internet. It's only a matter of time until access to the Internet will be simple and inexpensive; then everyone's main artery will be spliced into the Internet. Then we'll see what real price competition looks like.

Airlines take to the Internet to wage fare wars

By Donna Rosato
USA TODAY

Fare wars are breaking out on the Internet.

As fare deals multiply on airline Web sites, airlines are lished discounts exclusively on its Web site for the first time in June. The fares covered routes between 14 cities and Salt Lake City. Delta Air Lines, which has a hub in Salt Lake City, matched with its own Internet- ed on its Web site a $129 round-trip fare for weekend travel between St. Louis and Houston. Houston-based Continental retaliated with a $129 round-trip, weekend fare from TWA's hub in St. Louis to Newark, N.J. traditional fare wars, which are played out in newspaper ads and in computer reservation systems that travel agents use.

"We watch what other airlines are doing on their Web sites very closely. It's another to Austin, Texas, including an $80 round-trip fare between Austin and Nashville. Tickets were on sale for only four days and just to 10 markets.

Keeping track of Internet fare sales is difficult because

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Speaking of deflation, key stock indices in China are breaking down. *13D Research, Inc.* [(208)726-2105] reports, "The stock markets in both China and Hong Kong are acting much more in unison than ever before. Their fortunes are now irrevocably tied together. As China goes so goes Hong Kong and vice versa. It is with great interest that we note that three major Chinese stock indexes have broken through critical support (investors in hugely appreciated markets such as Russia, Brazil, and Mexico please take note)." **Russell comment**: The three indexes referred to are the Hang Seng China Affiliated Corps. or "Red Chip" Index, the Hang Seng China Enterprises Index and the China World Index. **Note:** So far, the US markets are not taking seriously the collapse of the Asian markets. That may prove to have been a mistake.

* *

The press is increasingly fed-up with Clinton. The Democratic and highly influential *NY Times* has been calling for an independent counsel. But on Oct. 10, in a three-column piece, Mark Helprin (a contributing editor of the *WSJ*) called for Clinton's **impeachment.** Helprin states that Clinton "may be the most corrupt, fraudulent and dishonest president we have ever known." Helprin continues that Clinton and his associates "withheld and destroyed records, purloined FBI files, used the IRS to intimidate opponents, plotted to cage government business, met with drug dealers, arms traders and mobsters, raised illegal campaign money, sold influence and shook down the Chinese." Helprin's solution -- impeach Clinton. I'm sure the editorial staff of the *WSJ* agrees. **Russell opinion:** Clinton, the ultimate presidential rogue, has been saved by the bull market. The public's attitude is as follows, "What do I care about another crooked pol. Hell, they're all crooked. Look, the Dow's 8000 and I've got a good job and I'm feeling no pain, so don't bother me with the garbage that's happening in Washington."

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Computers Will Crash: That's the widespread prediction, but will it happen? There's no question that many computers will crash or buzz incoherently unless they are **re-programmed** before the year 2000. The problem -- computers are programmed with two digits per year. Thus, 99 is short for 1999, but when the year 2000 arrives that 00 will mean the year 1900 for most computers, giving way to the coming madness. According to scare-rumors, the cost of re-programming millions of computer will run into the trillions of dollars. Not so, says the Oct. 4 *Economist, "Over the next 800 days most, though not all, of the millennium bugs will be hunted down and exterminated. The eventual cost worldwide might come to $300 billion."* **Russell opinion:** That's a lot of money, but it's nothing like the predicted trillions of dollars. Re-programming will be expensive, but re-programming will not be the end of Western Civilization as we know it. It will be like El Nino -- we will survive.

* *

Can anyone stop the growth of government? The answer seems to be NO. The Republicans are ostensibly the party of smaller government. But ironically the current GOP-controlled Congress is the biggest-spending Congress in US history. Republicans have increased spending by $183 billion compared with a $155 billion increase courtesy of the prior three years of Democratic control. Under the current GOP controlled Congress, not a single cabinet agency has been eliminated. And according to the Cato Institute, "Only a handful of the 300 federal programs targeted for closure have actually been terminated."

OK, how about campaign reform? Nothing has happened, even though Republicans are screaming about the White House money-raising scandals. And will there be any reforms? Doubtful. One reason -- the Republicans love the current system of raising money. Why shouldn't they? After all, the GOP consistently raises 50% more money than the Dems. And didn't Clinton whine that his party had to resort to all that obscene money-grubbing because they had to keep up with the Republicans? And as for reform, Republican Trent Lott killed the chances for reform last week when he withdrew a major bipartisan proposal to outlaw "soft money."

Russell View: It's totally disgusting -- the GOP kills election reform, and Clinton continues his money-raising shenanigans, all the while protesting that what he's doing shouldn't really be legal. In my lifetime I've never seen Washington so corrupt, so disliked, so populated with self-serving low-lives.

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Talk about extreme competition and deflation! First it's a price war for the great American hamburger and now it's the pizza wars. In a two-page ad in the *USA Today* (Oct. 9), Little Ceasars introduced its "Big! Big! Pizza" which they claim is "65% bigger than Pizza Hut's and Domino's large. And it's just $9.99 carried out." The ad pictures a monster pizza that measures 17.5 inches across covered with what looks like dozens of slices of pepperoni. The fast-food wars are in high gear. Is this a great country or what!

* *

Sign of the times: Two weeks ago John Marrow, 83, died in San Diego. Marrow played for the Chicago Bears football team pre-WWII, back in 1937. Said Marrow, "When you started in football, you bought your own pads and helmet until you found out if you made the team." Marrow played guard for the Bears at 225 pounds, "maybe a little larger than the average guard. Pay was $90 to $120 a game; contracts were rare; survival, financially and physically, was week to week." **Russell comment**: A guard at 225 pounds couldn't make a major college team today. And I don't think I know of any NFL player today who would accept pay of $90 a game. Talk about "irrational exuberance," and great expectations, 21-year-old Kevin Garnett just signed a six-year contract with the Minnesota Timberwolves (basketball) for a record $125 million (the Timberwolves are obviously betting the Kevin will be a super-star).

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Football ratings on TV are now surpassing baseball ratings. Two weeks ago on Monday Night Football the Denver-Patriots game registered 13.9 as against a 9.8 for the much more exciting Yankee-Indian playoff game. Furthermore, football has proven to be an ideal platform for betting. Side bets on football include over-under, half-time score, winners, end score, etc. The Mirage in Vegas allows $30,000 bets on football as against only $10,000 on baseball. No other sport besides football brings in such a huge amount of betting --with the single exception of a heavyweight fight.

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I've been meaning to write this for some time, but I just haven't had the nerve. But now I'm writing it because so many subscribers have asked me "Russell, how did you get into chelation?" So here goes.

Back in 1970 I had a heart attack. I recovered fairly rapidly and seemed to suffer no ill effects. But around 1980 I began to have a "stopped-up" feeling in my chest. As time passed I found myself increasingly out of breath, and by 1984 I was so congested and winded that I literally couldn't walk 50 yards without resting. Finally, I had to face the fact that something was drastically wrong (up to that time I was obviously frightened and in denial).

I consulted a cardiologist, and upon examination (angiogram) he told me I definitely needed a by-pass operation. He said I was basically strong, and that I was an ideal candidate for a by-pass. A week later I entered Scripps Memorial Hospital, underwent a quintuple by-pass, and within 10 days I was walking about,

attending a birthday party and happy to be alive. The congestion, the shortness of breath, the stopped-up feeling was gone. Ah, but it wasn't that easy. The operation was painful, I had lost a good deal of weight, and it took me three years to completely recover from the by-pass operation. But I could breathe, I had energy, and I could exercise again.

Then, four years ago I suffered a new sharp pain in my chest. My wife, Faye, drove me to the emergency room of Scripps. What happened was that one of the by-pass grafts had closed -- thus the sharp pain and another mild heart attack. This time the doctors did something fairly new -- the graft was opened via angioplasty and a tiny spiral spring was placed in the vessel. The spring (called a stent) kept the vessel open.

At that point I was again happy to be alive -- but also worried. Happy because I felt OK again, but worried because I knew that the by-pass and the stent were **temporary** treatments. It was obvious that whatever was stopping up my vascular system was going to continue to stop it up. Was my life to be an endless series of operations? A very depressing and really frightening thought.

Now the story gets a bit mysterious. I'm a Jew, but I was raised without religion (neither of my parents was religious; they never went to synagogue). My grandmother, as a matter of fact, was a Christian Scientist, and my father believed in Pantheism (i.e., a belief that God was everywhere, in nature, in plants, in animals, in the earth itself). My mother never concerned herself with God at all. I always felt my father fit the description of "the man who gave up on religion and found God."

At one point I became very interested in the Bible and particularly the Gospels. I wanted to study what Christ actually said. Next, I became interested in Christian Science. I'm not a Christian Scientist, but one of their booklets made a huge and lasting impression on me. The booklet is entitled, "The Law of Adjustment." In this booklet it states that **God never intends to destroy man.** The Law states that in any seemingly desperate situation there is always a **way out** -- there is **always an alternative to your current predicament.** But the way out requires a firm belief in and dependence on God. Therefore, with a firm belief in the concept that God does not want to destroy you, it is up to you to find the answer or the alternative to any dire situation (I really believe that). Furthermore, I remembered that my father always insisted, "There's an answer to everything, it's up to you to find that answer."

So question -- was there any answer to my heart problem and a life of endless operations? The Law of Adjustment said that there had to be. God did not mean to destroy me. What was the alternative to a life consisting of operation after operation for congested veins and arteries?

I remembered that in a health food store I had seen a few books on the subject of chelation. I had not been particularly interested at the time, because chelation sounded like just another hokey "alternative method." But just before my by-pass I had taken a series of acupuncture treatments. I had taken them because I had heard that acupuncture could strengthen one's heart. And what the heck, I had lived through a quintuple by-pass operation, maybe with the help of acupuncture. So why not read about chelation instead of writing it off as a fraud?

So saying, I read a book on chelation -- and then another and another. The more I read the more I was impressed. But I wanted more evidence. So in a Dow Theory Letter I asked my subscribers whether any of you had ever had experience with chelation. To my surprise, I received dozens of letters from subscribers, most of them extremely positive regarding chelation. Many talked of extraordinary results. So I said to myself, what harm is there in trying it (I was still suffering from angina pains, which were both frightening and enervating).

I entered chelation treatments, and I've been taking them for the last three years (I now undergo a treatment once a month). My angina has about disappeared, I feel fine, I go 35 minutes daily on a Stairmaster, and as subscribers know, I'm now a firm believer in chelation. So subscribers, that's it, that's how I came upon chelation. At least that's the thinking process that got me into it. I hope my story will be of help to many more of my subscribers. After all, heart attacks and heart problems are the number one killer of men and women in America today. And unfortunately, many of my subscribers will have to deal with heart problems in years to come -- that is, if you're not dealing with them already. I'm happy to say that I estimate as many as 100 of my subscribers are now in chelation treatment due to my words and comments. And I hope this piece will get more of you into chelation (believe me, your doctor will never mention chelation, or even suggest trying chelation prior to undergoing a bypass).

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Microsoft is the company they love to hate. The billionaire CEO of Oracle, Larry Ellison, talks about the four stages that Microsoft employs as Microsoft steals an idea. Stage #1 -- have Nathan Myhrvoid ridicule the idea (Myhrvoid is MSFT's chief technology officer). Stage #2 -- start saying, "Yeah, there are a few interesting ideas there." Stage #3 -- insist that, "Our version is better than theirs." Stage #4 -- say, "What are you talking about? It was our idea in the first place." At this point, Microsoft has won and is building a new industry, and the originator of the idea is out, and he might as well open up a deli in Grosse Pointe.

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The new money of the '90s is **corporate paper**. You're CEO of a big corporation and you want to buy another company. You don't put up money, you just issue more of your company's stock, which is what WorldCom promises to do when it takes over MCI. Just $30 billion of new stock will do it. No bank loans, no new bond issues, nah, just give 'em your paper. Come to think of it, my little company, Dow Theory Letters, might buy Dow Jones and the *New York Times*. I'm thinking of issuing around 10 billion in stock.

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Speaking of big money, Forbes is out with its "400 Richest" list. Californians comprise 83 of the 400. Of the list, 112 inherited their money, 219 were self-made, 53 made their dough via media, 52 in finance, only 30 in manufacturing (boy, how things have changed), 28 in real estate, 27 in oil and gas, 18 each in technology and retailing, 15 in software and 14 in agriculture. **Russell comment:** The easiest way to make the list is to inherit it or marry it. The second best way is to be a workaholic computer nerd and live in California or the state of Washington.

* *

Internet, computer games? Well, I love newspapers. In its September 29 issue, *Time* mag did a really interesting rundown on the newspaper industry. Time calls the *New York Times* "the last great newspaper" and Russell agrees 100%. The first thing I do in the morning is rush outside and grab the *NY Times*, which arrives here (national edition) at 3:30 AM. I read the *Times* cover to cover and then turn to the *WSJ* (it arrives at 4:00 AM). The truth -- the *Times* is better than ever. *Time* mag calls *USA Today* the nation's most "underrated" newspaper, and here again I agree. *USA Today* has forced every other paper in the nation to change (color, more articles, better writing). Snobs should face it, *USA Today* is an outstanding paper with the best sports section in the nation (this is what really sells the paper) and one of the nation's best amusement sections. The *LA Times* has gone downhill and is in need of a total makeover. San Francisco, surprisingly, doesn't have a decent paper. Not mentioned in the *Times* article is the *Christian Science Monitor* (wonderful paper), the *International Herald Tribune* (great paper that I wouldn't be without), the *Washington Post* (premier reporting), and the *Financial Times* out of London (outstanding international business news coverage plus fine cultural articles and now available daily in the US).

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John Naisbitt, author of the best seller, "Megatrends," spoke a few weeks ago in San Diego. Naisbitt said, "Governments don't trade. Governments don't add value. The role of government is to get out of the way. Only entrepreneurs can revitalize the economy."

Naisbitt predicted that future world financial trends will be set in Asia while economies will continue to globalize. He noted that "Asia is creating the largest middle class the world has ever seen. In the 1990s Asia came of age." He predicted that Asia will become a dominant economic force while the importance of the nation state will diminish. "The West needs the East more than the East needs the West." With the rise of entrepreneurs large companies will begin to "deconstruct" and be replaced by networks of small businesses. "Europe is not going to be a player" because of its welfare burden and lack of entrepreneurs. Anyway, those are the Naisbitt views.

* *

LATE NOTES, OPINIONS: Question: Russell, in the last two weeks I've read at least 20 articles on the subject, "Will there ever be another 1987?" What do you think? **Answer:** I don't think we're fated to see another 1987-type crash. In the next bear market I believe we'll see erratic **erosion** rather than a crash. But wait -- if we do have a crash, there will not be a huge recovery as per the post-1987 action. No, if there is a crash, we'll see a minor recovery and then the market will then head down again. Remember, the market seldom does the same thing in the same way twice in succession.

Question: What really bothers you about the current market situation? **Answer:** I won't even go into overvaluation, and subscribers know how overvalued I believe this market is. But from another standpoint, study this chart from the *WSJ*. I've never liked this particular formation. What we see here is an initial distribution off the Dow peak in August, and I've marked #1 on the chart. Then came a break, taking the Dow down to the **7600** level. Next, we saw a second rally which ended on October 7 -- but this time the Dow halted **below** the August high. And then we saw a second distribution (marked #2). As I said, I've never liked a pattern where the market has two successive distributions, with the second distribution starting **from below** the peak of the first. More times than not, this is the recipe for trouble.

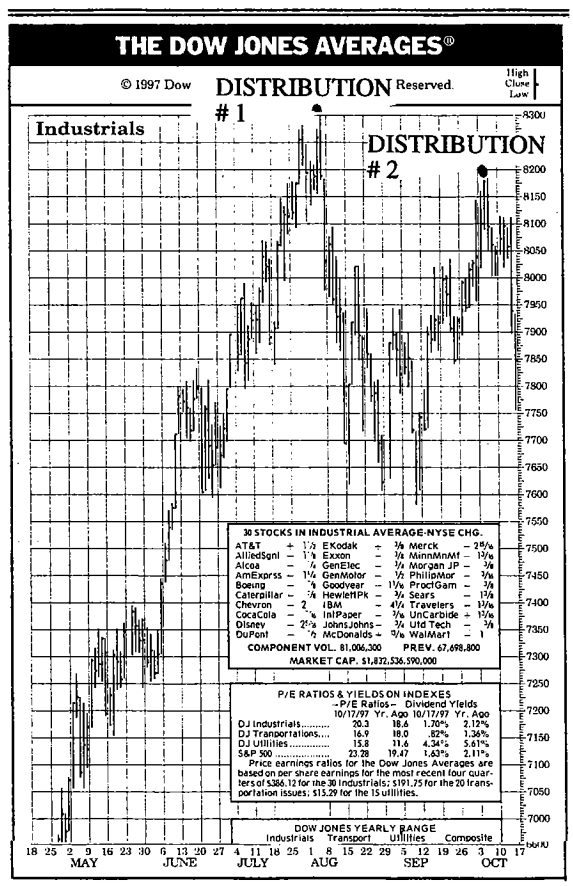
On top of that we've had over two months of **divergence in the Averages** with the Transports rising to successive new highs -- this in the face of the Dow's very stubborn refusal to confirm. Thus we've seen danger signals in the Averages ever since August 6 (the day of the Dow's high).

Question: Russell, what about the surging secondary stocks? Don't they constitute an element of strength for the market? **Answer:** I've said over and over again that the big blue-chip stocks, the stocks that tend to be owned by large, sophisticated investors, are the leaders. In other words, it's the **Dow-type stocks that set the trend**. Once a Dow trend is set, **sooner or later everything else will follow.**

Over and over again in the past we've **seen distribution by the big Dow-type stocks** under the cover of excited action by the secondary stocks and the cats-and-dogs. The FACT is that the Dow recorded its high of **8259.31** on August 6 and since that time a lot of secondary stocks have risen. But more than two months have gone by and the Dow is (as I write this) still 375 points below its August 6 high. What does this mean? To me, it means that the Dow stocks have been distributed under the guise of strength in the secondary issues.

Question: Russell, what's your PTI saying here? **Answer:** I haven't received any bear signals yet from my PTI. The PTI isn't a hair-trigger device. Bull and bear signals on the PTI usually are followed by a year to many years of action in the direction of the original signal. For this reason, I believe the next bear signal on the PTI will have extremely bearish implications. In other words, it will be a long-term or major bear signal. I have not received such a signal at this time.

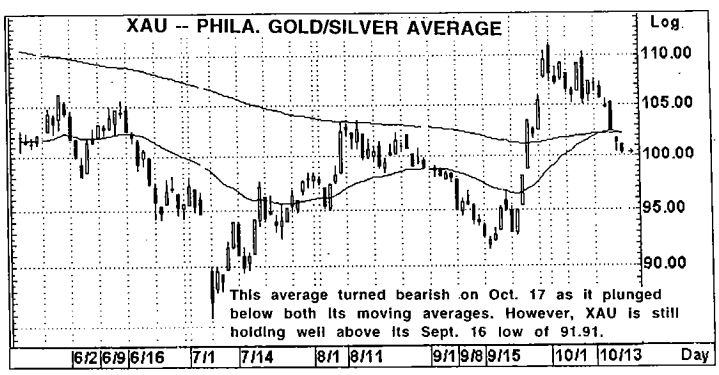
Question: So what do you think is the bottom line here? **Answer:** You want to make it simple, this is as simple as I can



make it. As long as the Dow holds above 7600 I believe the bulls have a valid case. But if the Dow breaks decisively below **7600**, particularly on expanding volume, I'd say that the bear has taken over.

GOLD: You have to dig deep to find anything bullish about the gold picture. But OK, I'll dig. Here's the chart of XAU, the Phila. Gold/Silver Average. We have a low close on this Average at 87.01 on July 7. Next a rally, and a second HIGHER low of 91.91 on September 16. Then another rally, this time taking XAU to a high close on Sept. 30 of 109.50. All right, that means that XAU rallied 25% off the low within a period of two months, pretty good, so good, in fact, that XAU was in need of a correction. And maybe, just maybe, that's what we're seeing now. On Oct. 17 XAU broke below both its 34-day and 144-day moving averages, action that I don't care for. From the bull's standpoint, it would be "nice" to see XAU hold above 100 on any further weakness.

As for gold, the metal, the December futures are now within a few points of the extreme 1997 lows, which come in around 320. Again, it would be "nice" to see 320 hold.


XAU -- PHILA. GOLD/SILVER AVERAGE
Log
110.00
105.00
100.00
95.00
90.00
This average turned bearish on Oct. 17 as it plunged below both its moving averages. However, XAU is still holding well above its Sept. 16 low of 91.91.
6/2 6/9 6/16 7/1 7/14 8/1 8/11 9/1 9/8 9/15 10/1 10/13 Day

NEXT MAILING: Nov. 5, 1997